

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 ANKARA 001392

SIPDIS

SENSITIVE

STATE FOR E, EUR/SE AND EB/IFD
TREASURY FOR OASIA - MILLS AND LEICHTER
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PREL](#) [TU](#)

SUBJECT: TURKEY'S ECONOMY MARCH 4 COB

REF: ANKARA 1351

Sensitive but unclassified, and not for internet distribution.

1. (SBU) Summary: Markets were relieved this afternoon that today's Treasury auctions had gone relatively well, with the lira and equities gaining for the day (though t-bill yields closed up 2.5 percentage points). Treasury raised a total of TL 2.3 quadrillion that, together with some of Treasury's cash reserves of TL 4.2 quadrillion, will be used to meet the March 5 debt redemption of TL 3.9 quadrillion. Looking ahead towards the March 19 redemption of TL 5.2 quadrillion to the domestic market, Treasury plans to schedule several auctions, including possibly an F/X-linked auction next week. IMF resrep briefed us on the status of the Fourth Review. He agrees in general with MinState Babacan's prognosis that the Fourth Review could be held early April, but IMF is concerned with possible delays stemming from formation of an Erdogan government. End Summary.

Markets Improve Slightly On
Treasury Auction Results

2. (U) Afternoon trading today reflected market relief that the two Treasury auctions earlier in the day had raised over TL 2 quadrillion, sufficient to enable Treasury to meet the March 5 TL 3.9 quadrillion debt redemption. The lira firmed nearly one percent from yesterday (closing at TL 1,637,000 to the dollar), and the Istanbul Stock Exchange rose 4.8 percent on the day. Yields on T-bills remained at the 62.5 percent level of the auction, reflecting overall investor concerns on GOT financing prospects. (Note: Today's yields are some 16 percentage points above the GOT's targeted average interest rate for the year.)

3. (SBU) Treasury's Deputy DG for public finance Volkan Taskin was relieved after the March 4 auctions, telling us "every auction is a new experience." He added that, in addition to the TL 2 quadrillion raised from the market, the Treasury sold about TL 300 trillion to public institutions (primarily the unemployment insurance fund) before the auction. This brings the total amount raised to TL 2.3 quadrillion. Looking ahead to the March 19 redemption of TL 5.2 quadrillion (\$3 billion), Taskin said Treasury would schedule several auctions, including probably a F/X-linked auction next week.

Status of IMF Fourth Review

4. (SBU) On March 4, IMF resrep gave us the following status report on the IMF Fourth Review:

-- Timing: State Minister Babacan told the press March 4 he expected an IMF Board review in late March or early April, followed by disbursement of the entire \$1.6 billion tranche. Resrep didn't disagree with Babacan's timing. In principle, the IMF staff could wrap up LOI discussions this week, and take back to headquarters ad ref agreement on it. But IMF staff have questions regarding the March 9 parliamentary by-elections. Assuming Erdogan becomes Prime Minister, would the Gul government's ad ref agreement on the LOI bind an Erdogan government? IMF staff project that an Erdogan government would take about 3 weeks to form, thus potentially slowing down the LOI and Fourth Review process (though there are no pending conditions requiring parliamentary action,

other than passage of the 2003 budget, in the Fourth Review.)

-- Budget and World Bank Problem: IMF staff are confident that the budget now delivers a 6.5 percent primary surplus, but there are two budget problems:

First, World Bank staff object to the draft budget's delay of TL 1.4 quadrillion (nearly \$1 billion) in "Direct Income Support" to farmers, a key ag sector reform. A one-year delay of this program means farmers cannot rely on this new program, meaning they will instead lobby for traditional support, such as further restructuring Ziraat Bank loans. Per WB Staff, World Bank country director Chhibber told Babacan March 3 this budget measure would make it impossible for the World Bank to disburse its existing budget support loan programs (a total of \$1.375 billion in loan tranches, which are due to expire at end March 2003). This would leave the World Bank limited to existing project financing (also affected by 2003 budget cuts to public investment projects.) Babacan said he would get back to Chhibber, per World Bank staff.

Second, the IMF staff see a financing gap in the 2003 budget, and they would need to explain to the IMF board how this gap will be filled (in addition to their lending) before taking the Fourth Review to the Board. Resrep said the size of the gap was still being studied.

-- Key structural reforms. The direct tax reform bill appears to be on track: it has been prepared, IMF staff have commented on the draft and it could in theory be submitted to parliament (the Fourth Review condition) soon. The TEKEL privatization plan should be passed soon by the Higher Privatization Council (another condition). Two other conditions require work: there is no clarity in reducing redundancies in the state enterprise staffing, with a GOT proposal (to offer early retirement) unacceptable because it fails to target actual redundancies. To remedy deficiencies in banking sector reform (especially the BRSA's agreement on Pamuk/Yapi Kredi connected lending rescheduling), the new LOI will require new legislation to strengthen BRSA's hand by limiting the time for legal appeals to its decisions, and by a new bankruptcy law which will improve the value of the BRSA's non-performing loan assets, and lead to sales of these assets.
PEARSON